



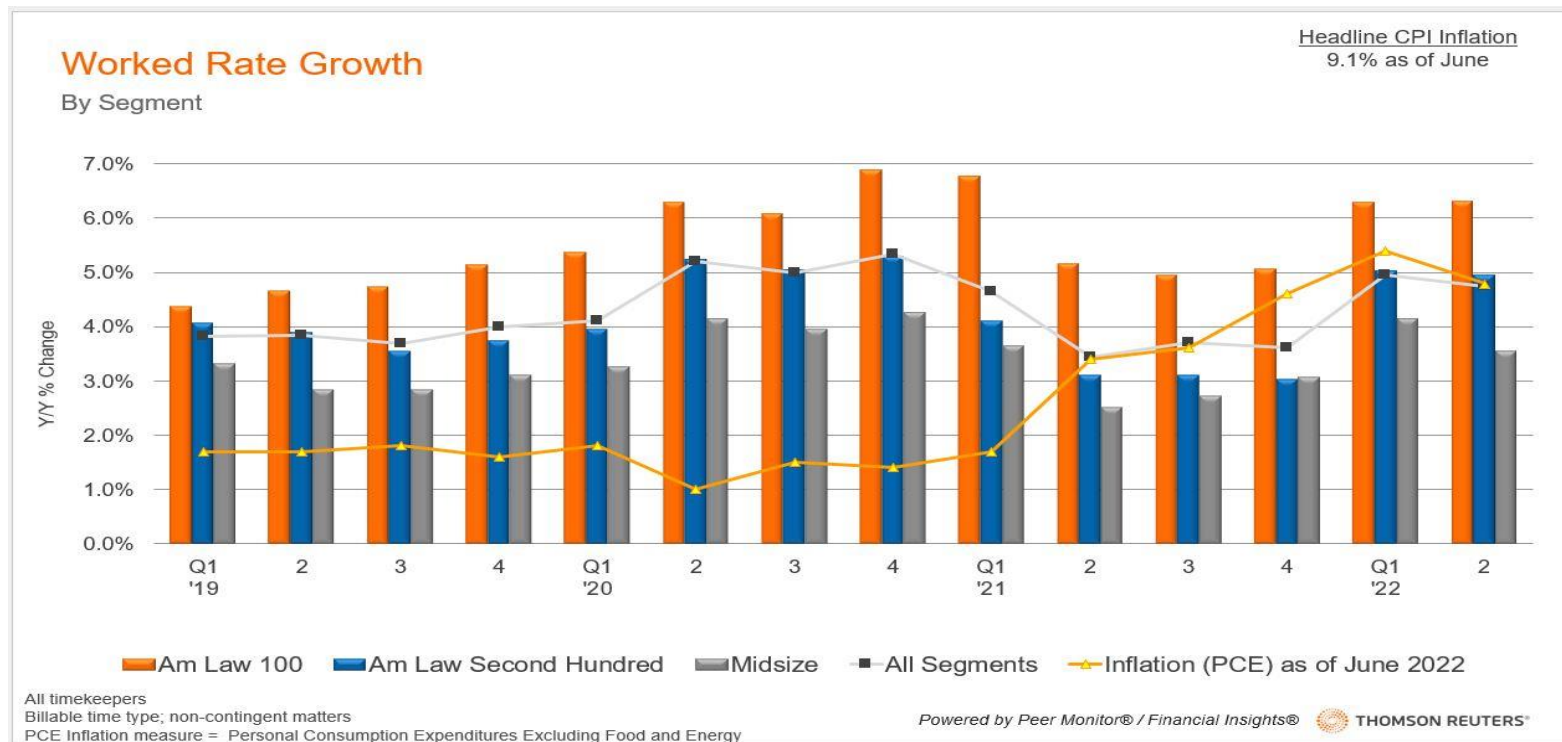
Pricing Strategies

Hourly Rates and Inflationary Pressures

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Background

- Globally, many law firms are seeing inflation overtake their worked growth rate
- Q2 inflation outpaced worked rate growth for many firms (see chart below from Thomson Reuters), albeit at a much smaller rate compared to recent quarters. This represents the third consecutive quarter in which worked rate growth grew at a slower pace than inflation.
- Fixed and variable costs are rising, in particular as the need to retain employees pushes up salary costs



Leading the Conversation

- Often the setting of hourly rates can fall between:
 - Finance
 - Managing Partner
 - ExCo
 - BD/Pricing Director

- If your fixed costs have increased, then your profit will automatically reduce

- Pricing Governance should be in place with a clear sign off process

- We now review our rates every 6 months and make 1 change per annum

Clients also facing rising costs



- Partners under pressure from clients to discount rates
- Few understand the impact on profit (rule of x3)
- For example, based on granting a 10% discount with a 40% profit margin:

Hourly Rate	Cost	Profit @40%	
300	180	120	
10% Discount: 270	180	90	-25%

What we considered

Doing nothing was not an option...

- Local, Standard and International Rate cards
- Sector specific rate cards reflecting price sensitive markets
 - Lower rates for Public Sector work
 - Higher rates for Private Equity/Private Debt clients
- Exchange rate winners and losers – the UK market in particular was suffering with a low GBP whilst US clients had a higher value USD
- The reaction of our clients if we increased our rate twice in one year
- The reaction of other law firms referring work to us
- Relatively low discipline of Partners using the “correct” rate card if given too many choices

Actions Taken

- Standard and International Rate cards
 - Moved to a 2 rate card model for the first time
 - Increasing rates on a scale that maximises profit (e.g. associate levels)
 - Limiting increases at the top and bottom of the range



- Existing rates increased 1st April 2022 with next increase on 1st Jan 2023



- Communication Program to clients to explain the rate changes



How we explained a further increase to our clients



- Global impact on our costs, but this is only part of the story...
- Focus on the strength of new hires we have made and the value they add to clients
- Our continuous investment in training programmes, access to knowledge and developing our lawyers
- Investment in new technology that will improve efficiency for clients

